

## AUDIT

This activity is responsible for ensuring tax compliance and the collection of outstanding tax liabilities through the examination of information provided on tax returns and by auditing records at the taxpayer's place of business. This activity consists of five branches: Field Audit, Out-of-State Audit, Audit Services, Office Audit and Individual Tax Audit.

### Field Audit

The Field Audit Branch audits businesses to determine if they have complied with their obligations under New Jersey's tax statutes. The audit examination of the taxpayer's accounting records is comprehensive and covers all taxes administered by the Division. In addition, as part of several interstate exchange agreements, select information may be obtained for other taxing jurisdictions during the performance of the audit.

In addition to regular audit activities the Field Audit Branch has undertaken its cash audit initiative. This program is designed to strengthen compliance and collection efforts as well as level the playing field for smaller to moderately sized companies located in New Jersey.

During the 1999 fiscal year, the nineteen field audit groups completed 3,931 assignments consisting of both regular and cash audits. The completed assignments generated assessments of \$75,091,881 including penalty and interest charges. The distribution of the assessments by tax is as follows:

<b>Tax</b>	<b>FY 1999</b>
Sales & Use	\$40,409,587
Corporation Business	9,461,841
Business Personal Prop.	11,264
Gross Income	3,114,402
Litter	540,179
Miscellaneous Other	1,312,042
Total Tax	\$54,849,315
Penalty and Interest	20,242,566
Total Assessments	\$75,091,881

### Out-of-State Audit

The Out-of-State Audit Branch has the responsibility to perform field audits for all New Jersey taxes on all taxpayers whose accounting records are maintained outside of the State. Currently the Division has regional offices in Chicago (Illinois) and Anaheim (California) with tele-commuters based in Atlanta, Boston, Houston and Norwalk.

Completions of audits by the Out-of-State Audit Branch for fiscal year 1998 and fiscal year 1999 were 187 and 200 audits respectively which generated assessments totaling \$22.7 million and \$29.2 million respectively. The distribution of assessments by tax is as follows:

<b>Tax</b>	<b>FY 1999</b>
Sales & Use	\$ 9,141,853
Corporation Business	7,639,381
Litter	1,493,746
Petro. Gross Receipts	284,003
Business Personal Prop.	0
Total Tax	\$18,558,985
Penalty and Interest	10,733,625
Total Assessments	\$29,262,610

Collections versus assessments on closed audits since inception of the Branch through the end of this fiscal year is 75.3%.

### Audit Services

The Audit Services Branch provides audit, technical and clerical support for various Branches within the Division. In addition to the support functions, they house the Alcoholic Beverage Tax, Cigarette Tax, Cooperative Interstate Tax Enforcement, Public Utility Tax, Sales Tax Refund, and Wholesale Tobacco Products Tax Groups.

The Audit Selection Group provides Audit with candidates selected by utilizing various resources such as the Division's databases, analysis of outside information, manipulating and comparing reporting histories and reviewing the latest tax issues. All resources utilized by this group are geared towards providing Audit with the most effective candidates for audit.

The Case Preparation Team within the Audit Selection Group assists the various Audit Teams in the preparation of case files. This includes entering Corporation Business Tax returns in the automated workpapers. This eliminates some of the functions previously performed by technical staff located in Field Offices. This enables them to more efficiently service the auditors' and supervisors' needs.

The Technical Support Group processes data received from various outside agencies such as the I.R.S., U.S. Customs and third parties, such as alcoholic beverage wholesalers, as well as manipulating the Division's databases to provide Audit Branches with valuable audit information. This group is also in the process of developing new management reports for Division managers.

Audit Services continues to assist auditors with updates and maintenance for laptops, desktop computers, periph-

eral equipment and programs including SmartPapers, the automated workpapers system. In addition to providing assistance and training, they are continually reviewing and evaluating new technologies to further enhance the auditor's efficiency. This group also provides assistance to the various groups within this Branch.

The Audit Billing Group within Audit Services provides billing capabilities for all Audit Branches. This process includes making the necessary adjustments to the Division's systems to properly reflect the taxpayer's account, creating bills, corresponding with taxpayers, applying payments and transferring files for administrative hearings or securing the liability for future collection.

Independently this Branch handles administrative functions for Tobacco Taxes and Alcoholic Beverage Taxes, which are too small to be totally mainstreamed. These groups issue refunds, reconcile accounts, review license applications, determine proper bonding requirements and provide taxpayer service as it relates to these taxes.

The Sales Tax Refund Group processes and reviews refund claims. This group works closely with Audit to streamline processes and perform functions more effectively and efficiently.

This Branch continues to maintain and expand the Local Area Network for Audit Activity. The LAN is highly relied upon by both the Gross Income Tax Branch and the Nexus team. The LAN allows these groups to streamline information and utilize resources more efficiently and effectively.

The Public Utility Tax Unit has been implementing changes that affected the energy industry with the passing of new legislation. This unit worked closely with the Treasurer's Office to introduce and implement this new legislation. They continue to administer the Gross Receipts and Franchise Tax in all aspects for other utilities.

The Word Processing Unit provides various Branches within the Division the ability to produce massive quantities of production. This group provides the word processing support that otherwise is absent from groups such as the Gross Income Tax Branch, Nexus and other areas that require assistance with high volume projects.

The Cooperative Interstate Tax Enforcement Group administers the agreement between New Jersey and New York as it relates to Sales and Use Taxes being charged by vendors doing interstate business. This unit is also responsible for the assessment of Use Tax on purchases which are made out-of-State and works closely with United States Customs Service data in assessing Use Tax that is due on imported goods being brought into New Jersey by both businesses and individuals. It also administers the

provisions of the Jenkinson Act as it relates to cigarettes being purchased out-of-State.

## Office Audit

The primary responsibility of the Office Audit Branch is the audit and refund of Corporation Business Tax. Other taxes audited include the Financial Business Tax, Insurance Premiums Tax, Ocean Marine Tax, Retaliatory Tax, Savings Institution Tax, various Sanitary Landfill Taxes, Spill Compensation and Control Tax, Corporation Income Tax, Motor Fuels Tax and the Petroleum Products Gross Receipts Tax.

The Branch is comprised of ten audit groups. Three groups are assigned general corporate desk audits. The two Corporate Service Audit Groups have the responsibility to examine taxpayers in order to issue Tax Lien Certificates, Tax Clearance Certificates and Certificates of Reinstatement of Corporate Charter. The Motor Fuels Audit Group examines the Motor Fuels Tax and Petroleum Products Gross Receipts Tax. The Special Audit Group has responsibility for the other smaller taxes as well as reviewing Internal Revenue audit changes. The Nexus Audit Group has the responsibility to discover and examine out-of-State entities to determine whether they have an unreported tax filing and paying obligation. The Corporate Bill Group has responsibility to review all deficiencies generated by Corporation Business Tax filings, as well as auditing all amended returns not claiming a refund. The Corporate Refund Audit Group is responsible for auditing and approving all Corporation Business Tax refund claims. Last fiscal year, this group denied refund claims totaling \$23,641,518.

During fiscal year 1999, the ten audit groups generated assessments, including penalty and interest, in excess of \$113 million while issuing 22,974 tax certificates of various types. Distribution of assessments by tax is as follows:

<b>Tax</b>	<b>Amount</b>
Corporation Business	\$ 77,191,609
Sales & Use	1,021,424
Gross Income	720,764
Miscellaneous Others	5,783,793
Total Tax	\$ 84,717,590
Penalty and Interest	29,063,198
Total Assessments	\$113,780,788

## Individual Tax Audit

On January 1, 1999 the Gross Income Tax Audit Branch and the Transfer Inheritance and Estate Tax Branch of the Division of Taxation were merged to form the Individual Tax Audit Branch. All of the functions of the two prior Branches are now done by

the two sections of the new Branch and are reported below.

**Gross Income Tax Audit.** The Gross Income Tax Audit Section of the Individual Tax Audit Branch is responsible for auditing the Gross Income Tax returns filed with the State of New Jersey, using a variety of criteria developed within the Branch utilizing information from the Internal Revenue Service, neighboring states, and other New Jersey agencies where applicable.

The section also pursues delinquent resident and nonresident taxpayers separately and in joint projects with other Division Branches and the Internal Revenue Service.

Some categories of individuals and/or businesses the section is currently focusing on are S corporations and their shareholders, partnerships and their partners, the self-employed, fiduciaries and their beneficiaries, entertainers, professional athletes, and employers withholding Gross Income Tax.

During fiscal year 1999, the six audit teams of the Gross Income Tax Section of the Individual Tax Audit Branch completed the following cases using computer-assisted and manual audit techniques:

	<b>FY 1999</b>
Cases Reviewed	37,388
No. of Assessments	9,942
Tax Assessed	\$22,466,880
Penalty and Interest	9,045,387
Total Assessments	\$31,512,267
Amount Collected	\$18,020,750

**Transfer Inheritance and Estate Tax.** The Transfer Inheritance and Estate Tax Section of the Individual Tax Audit Branch is responsible for all phases of the administration of the two taxes, from offering taxpayer service, to auditing, to the issuance of waivers.

The Taxpayer Service Unit in the Transfer Inheritance and Estate Tax Section handled 29,716 telephone inquiries from taxpayers and/or their representatives and also aided 688 individuals at the Division's Trenton location.

During fiscal year 1999, 6,923 returns were audited resulting in 1,686 assessments totaling \$36,656,488. The section processed 61,178 self-executing waivers (Form L-8), 7,604 requests for real estate waivers (Form L-9), and 46,206 additional waivers. Revenue in the amount of \$435,722,632 was collected of which \$172,422,017 represented New Jersey Estate Tax.

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## TECHNICAL SERVICES

### Conference and Appeals

The Conference and Appeals Branch handles taxpayer complaints and protests and conducts informal administrative hearings.

All incoming protests are evaluated by the Review Section for compliance with the statutory and regulatory provisions for Protests and Appeals. During the fiscal year, the Review Section forwarded to the Conference Section backlog 830 cases, only 26% of the total incoming protests.

The Conference Section provides informal administrative hearings. Determinations are rendered based upon the application of the statutes, regulations and Division policy to the specific taxpayer's facts as supported by the evidence provided. After the hearing process, conferees issue the Division's Final Determination on assessments, notices of individual responsibility for trust fund taxes, denials of refunds, as well as such non-monetary issues as nexus, subjectivity determinations and the denial of claims by organizations claiming exempt status. The Conference Section closed 862 cases for the year.

The exclusive remedy for a taxpayer should they disagree with the Final Determination is to file a complaint with the Tax Court of New Jersey. The Appeals Section of the Branch tracks and manages these cases, acting as the Division's liaison with the Deputy Attorney General assigned to defend the Division of Taxation. During the fiscal year, 183 new appeals were filed and 167 cases were concluded.

This fiscal year, the Conference and Appeals Branch received 3,334 protests and collected over \$7.3 million. Overall, less than 5% of the cases protested to the Conference and Appeals Branch proceed to the Tax Court of New Jersey.

### Regulatory Services

The Regulatory Services Branch drafts rules, regulations and notices for publication in the *New Jersey Register* and the *New Jersey State Tax News*; acts as the Division liaison with the Office of the Attorney General on technical and regulatory issues; provides administrative and enforcement advice to Division management and staff on all tax laws under the jurisdiction of the Division; drafts proposed legislation; reviews legislation and prepares comments; provides technical assistance in the implementation of new tax laws; and analyzes, researches and responds to all taxpayers' inquiries and requests for technical advice or letter rulings.

The Branch is charged with the responsibility of coordinating the processing of all Division rules and notices. The Administrative Practice Officer within the Branch maintains contact with the Office of Administrative Law in order to oversee the promulgation of Division rules and their official publication in the *New Jersey Register*. A total of 20 rules and notices were proposed, adopted and published in fiscal year 1999.

The Branch also researched and wrote over 2,000 taxpayer advice letters and answered approximately 13,500 telephone inquiries on technical tax matters.

**The Exempt Organization Unit**, within Regulatory Services, processes and makes determinations on applications for Sales and Use Tax Exempt Organization Permits. For fiscal year 1999, the Exempt Organization Unit mailed over 1,700 applications, ruled on over 900 completed applications and issued 30 denials of exempt organization status.

**The Office of Legislative Analysis**, within Regulatory Services, is responsible for reviewing all tax bills introduced in the Legislature. It evaluates the potential administrative, fiscal and policy implications of proposals which are scheduled or likely to be scheduled for legislative action; it proposes amendments to insure that a bill can be effectively implemented, prepares bill comments and fiscal notes, and recommends positions to be taken by the State Treasurer.

In addition, OLA monitors legislative activity, determines when bills affecting the Division are scheduled for committee or house action, and tracks the progress of each bill as it proceeds through the Legislature. It works closely with the Treasurer's Office and, when a bill is enacted into law, it often initiates and participates in the implementation process.

During FY 1999 OLA:

- Monitored and tracked 646 bills relating to the Division of Taxation.
- Prepared 263 legislative recommendations and bill comments.
- Prepared 121 fiscal notes.
- Testified before various Assembly and Senate Committees.
- Provided information on New Jersey legislative tax developments to many persons and organizations seeking such information.

## Taxpayer Services

Taxpayer Services is responsible for encouraging voluntary compliance by providing taxpayers the information and assistance they need to meet their New Jersey tax responsibilities. As a result of modern technology, two out of three taxpayers used one or more of the following automated services during the year:

- **NJ PC File** is the latest use of technology to improve our services to taxpayers. NJ PC File offers taxpayers the opportunity to prepare their income tax returns on a personal computer with free software downloaded from the Division's Web site, then transmit the information directly to the Division of Taxation. Refund checks are mailed within two weeks of filing.
- **NJ TeleFile** is a quick, easy and convenient way for New Jersey residents to file their income tax returns from a Touch-tone telephone. During the 1998 tax season, over 176,000 taxpayers filed their returns by NJ TeleFile and had their refund checks mailed within two weeks.
- **Automated Tax Information System** offers taxpayers four types of assistance from a Touch-tone phone:

*Automated Refund Inquiry System* provides information about current year tax refunds (used by 354,813 taxpayers in fiscal year 1999).

*Homestead Rebate InfoLine* provides information on the status of current year homestead rebates (used by 237,279 taxpayers).

*New Jersey TaxTalk* offers prerecorded information on 77 different topics (used by 53,061 taxpayers).

*Forms Request System* allows callers to order tax forms and publications (used by 123,190 taxpayers).

- **NJ TaxFax** service makes State income tax forms and other technical information available to fax machine users. During 1999, 87,402 forms were sent to taxpayers via TaxFax.

Taxpayer Services Branch includes the following:

**Call Center.** A new, state of the art facility which, when fully staffed with over 100 agents, can handle 10,000 calls a day. All representatives now have PCs on their desks in lieu of phones and are able to receive calls, access the Division's Taxnet system and view images of tax returns through their PCs. Incoming calls are routed to agents with the corresponding skill levels and Spanish-speaking callers have the opportunity to speak with a representative who is fluent in Spanish. During fiscal year 1999, 1.7 million phone calls were received.

**Office of Communication.** The activities within the Office of Communication are:

**Correspondence Unit.** Responsible for preparing replies to general taxpayer correspondence and referrals. Almost 78% percent of the mail received is e-mail. The Correspondence Unit responded to 11,000 pieces of correspondence during the 1999 fiscal year.

**Legislative Hotline & Contact Team.** Provides assistance to New Jersey legislators seeking resolution of homestead rebate, NJ SAVER rebate and Property Tax Reimbursement problems. The unit also responds to taxpayer correspondence pertaining to these property tax relief programs. This Unit responded to 29,661 pieces of correspondence during the last fiscal year.

**Publications Unit.** Responsible for tax publications including the instructions for individual income tax returns, technical bulletins, brochures and notices, and the quarterly newsletter for tax practitioners, the *New Jersey State Tax News*.

**Taxpayer Forms Services.** Mails out forms in response to taxpayers' requests and also handles bulk mailing for special projects. During 1999, 496,035 items were mailed.

**Technical Education.** Supports Division employees, the taxpaying public and the practitioner community. Technical Education also administers the Division's Speakers Bureau and the Small Business Workshop series; provides speakers on many New Jersey tax related issues and topics; and administers the VITA (Volunteer Income Tax Assistance) and TCE (Tax Counseling for the Elderly) programs.

**Trenton Regional Office.** Open to the public as a walk-in service, the office is located in the main lobby of the Taxation Building in Trenton. Taxpayer Services representatives are available to assist taxpayers in preparing returns as well as accepting returns and payments for processing. During fiscal year 1999, this office collected revenues in the amount of \$5,804,326.

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## COMPLIANCE

### Special Procedures

The Special Procedures Branch is primarily responsible for the enforcement and compliance efforts of the Division. As a result of the Activity's efforts in discovering, registering taxpayers and enforcement activities the State received \$35,037.69 in additional revenue. The specific functions of Special Procedures are as follows:

**Attorney General Referrals.** Whenever the Division has exhausted its collection remedies without success the case may be referred to the Office of the Attorney General for additional collection actions. Such actions may include domesticating the Division of Taxation's lien in another state wherein assets of the debtor may have been located and/or the instituting of wage garnishment proceedings. The Branch referred 1,555 cases to the Office of the Attorney General for collection. Collections of \$3,799,107 were received on Attorney General referral cases during fiscal year 1999.

**Bankruptcy.** The primary function of the Bankruptcy Section is to effectuate pursuit of delinquent taxes from debtors who have filed for protection under Federal or State Insolvency Statutes, by submitting Proofs of Claim to the appropriate courts of jurisdiction. The Bankruptcy Section filed 1,660 Proofs of Claim for \$46,830,337; 415 Amended Proofs of Claim for \$10,004,139.17; and 210 Administrative Proofs of Claim totaling \$3,943,707. Bankruptcy revenue for the year totaled \$7,294,695.

**Bulk Sales.** The Bulk Sales Section is responsible for examining the tax records of each business which disposes of its assets, either by sale, transfer or assignment, other than in the normal course of business. This area also issues Tax Clearance Certificates for Transfer of Retail Alcoholic Beverage Licenses. The Bulk Sales Section received 3,131 Notices of Sale during the fiscal year. Revenue for the fiscal year was \$11,582,529.

**Closing Agreements.** Under provisions of the State Tax Uniform Procedure Law, applications for compromise/settlement of tax debts are processed. The Branch approved 52 Closing Agreements. Revenue from Closing Agreement cases totaled \$2,850,092.

**Judgments.** The Judgment Section secures overdue liabilities from taxpayers who neglected or refused to pay taxes and/or file returns through normal channels. The primary enforcement vehicle is the Certificate of Debt which is filed with the Clerk of the New Jersey Superior Court. A Certificate of Debt has the same force and effect as a Docketed Judgment adjudicated in any court of law. In conjunction with 8,987 cases, the Division of Taxation

filed 20,168 Certificates of Debt in the Superior Court totaling \$210,311,699. The Judgment Section's revenue totaled \$9,511,189.

## Compliance Services

The mission of the Compliance Services Branch is consistent with the mission of the Division:

“To enforce the State's tax laws uniformly, equitably and efficiently in an effort to maximize revenues and to promote voluntary compliance within the taxing statutes.”

The Compliance Services Branch is a multi-functional Branch that provides services to the Division, to the tax-paying public and to other State agencies. The efforts of the various sections of this Branch have culminated in fiscal year collections of \$31,954,789. Some of the specific units are as follows:

**ABC Clearance Section.** This section is responsible for the issuance of the Alcoholic Beverage Retail Liquor License Clearance Certificate before the annual renewal of the license. For this fiscal year, 9,790 out of 9,990 licenses were cleared.

**Delinquency Section.** This section is responsible for securing delinquent tax returns and payments in order to bring taxpayers into compliance with regulatory filing provisions. Presently 18 of the 26 taxes administered by the Division have delinquency programs including the New Jersey Gross Income Tax. In addition, the program for Use Tax on out-of-State purchases has continued resulting in revenue of over \$30,000 this year.

**Deferred Payment Section.** This section provides an avenue for taxpayers to repay deficient taxes by way of a formal payment plan. This section administers more than 2,500 plans with monthly revenue averaging one million dollars.

**Casual Sales Section.** This section works in conjunction with the Division of Motor Vehicles to verify, assess and collect the appropriate sales tax on motor vehicles, boats and aircraft. Purchases of cars by out-of-State taxpayers are also questioned.

**Compliance Services Data Group.** This section plans, designs and implements new programs and projects for the Compliance Activity in the area of database management. Financial reports are compiled for the Branch and for the Field Investigations Branch. This group makes recommendations for the latest technology, provides support for the PCs and troubleshoots for technical problems.

**OSI Liaison.** This area is the link to OSI, a private collection agency contracted to collect delinquent and deficient

taxes for the Division. They assure that the vendor complies with Division policies and procedures; and act as facilitators between Division and OSI personnel.

This Branch also has one section responsible for the **Set-Off Program** that allows for the interception of monies paid to vendors for services and to apply said monies to deficient taxes owed by the vendor; **SOIL, Set-Off of Individual Liability**, a program designed to withhold personal gross income tax refunds and rebates from taxpayers who have tax debts; and **Lottery**, verification to the New Jersey Lottery Commission that prospective lottery agents are current in their taxes.

## Taxpayer Accounting

The Taxpayer Accounting Branch issues bills for underpayments of tax, penalty and interest, reviews bills and refund or credit requests, and responds to taxpayer inquiries regarding the status of their accounts. The Branch is comprised of the Correspondence and Review Sections for personal income tax, a Business Tax Section, and a Support Section. As a special service, Taxpayer Accounting also provides a Tax Practitioner Hotline where practitioners can call for assistance in resolving client problems that they have been unable to resolve through normal channels.

## Investigations

The Investigations Branch is the civil tax law enforcement arm for the Division of Taxation. The Branch is composed of seven field offices in five regions in order to provide geographic coverage for our discovery and enforcement activities.

Those activities include personal contact to register new businesses and to obtain delinquent tax returns and tax underpayments from businesses and individuals. Additional remedies utilized are a Certificate of Debt, a judgment that may be followed by levy, seizure and sale by auction of assets of the business or personal property of individual tax debtors. Payment plans are encouraged to avoid the seizure and sale of assets. Some tax violations are prosecuted as disorderly person offenses in Trenton Municipal Court. Their prime responsibility is the discovery of vendors operating in New Jersey but not complying with their tax obligations. This is done using various investigative techniques and by canvassing various business locations.

In fiscal year 1999, more than 10,000 cases received personal contact resulting in only 180 seizures of business assets and/or personal assets (less than 2%). Forty (40) auctions were necessary because the tax debtor was unable to make acceptable payment arrangements to redeem their assets.

The field office locations and their county areas of responsibility are:

Region A—Newark—Essex and Hudson Counties

Region B—Somerville—Sussex, Morris, Warren, Union, northern half of Somerset

Region B—Fair Lawn—Bergen, Passaic

Region C—Camden—Camden, southern half of Burlington, Gloucester, Salem

Region C—Quakerbridge—Mercer, Hunterdon, southern half of Somerset, western half of Middlesex, northern half of Burlington

Region D—Sea Girt—Monmouth, northern half of Ocean, eastern half of Middlesex

Region D—Northfield—Atlantic, Cape May, Cumberland, southern half of Ocean.

The field offices also provide walk-in taxpayer service and education in every office except Quakerbridge. In fiscal year 1999 field Taxpayer Service Offices assisted 57,238 taxpayers and tax practitioners over the phone and 53,109 in person with personal income tax preparation and inquiries; billing notices; business registrations; tax-ability inquiries; form completion and distribution; accepting tax payments; Homestead Rebate, Property Tax Reimbursement and SAVER programs assistance.

The fifth region, Region E, is composed of special project teams with statewide responsibility. Their purpose is to identify areas of noncompliance, particularly by transient out-of-State vendors that may have activities in New Jersey that create nexus for taxes administered by the Division. Region E conducts both industry specific investigations and geographic point of entry surveillances at various New Jersey border sites. Some of their special projects are:

- **Weigh Station:** With the assistance of the State Police, out-of-State commercial vehicles passing through the weigh stations are subjected to inquiry about New Jersey business activity and tax compliance.
- **Construction:** Out-of-State companies working at New Jersey construction sites are targeted for compliance with Division regulations. Investigators also verify that sales or use tax is paid on building material purchased from out-of-State vendors.
- **Boat Program:** A program is in place to determine if the appropriate sales tax has been paid on vessels owned or used in New Jersey.
- **Warehouse Project:** Companies storing inventory or leasing space in New Jersey warehouses are subject to corporate tax and possible sales tax.

- **Foreclosure Project:** This project seeks to gain the compliance from financial corporations not registered with the Division.
- **DMV Permits:** Oversized and overweight vehicle permits issued by the Division of Motor Vehicles are reviewed to identify businesses with tax problems.

All five regions utilize their statutory authority to make an immediate, on-site assessment of tax due referred to as a “jeopardy assessment” when confronted with an out-of-State vendor who failed to register their business with New Jersey, failed to file tax returns and/or failed to remit taxes due to New Jersey. Failure to satisfy the jeopardy assessment may result in immediate seizure of assets including vehicles. In fiscal year 1999, 776 jeopardy assessments were necessary and \$3,192,760 was received.

All five regions are involved in shrinking the underground cash economy. Canvassing of city business district flea markets, trade and specialty shows, arts and craft shows is conducted when the events are scheduled including weekends. In fiscal year 1999, more than 8,400 vendors were researched for tax compliance. Nine hundred ninety-six (996) new business registrations were secured and tax education provided to 12% of the vendors.

## Highlights

- A new initiative for this fiscal year is the Division’s participation in the program known as the ***Federal Reciprocal Refund Offset Program***. This program will allow for the offset of Federal income tax refunds for State income tax deficiencies. This Branch will be responsible for the processing and application of funds intercepted and for providing assistance to inquiring taxpayers.
- The Vendor Set-Off Program became fully automated near the end of the fiscal year. Fiscal year-end collections for this program quadrupled to \$990,013 as compared to \$225,025 for the previous year.
- Total collections from the private vendor, OSI, were \$60,846,157.
- For fiscal year 1999, the Taxpayer Accounting Branch answered more than 105,000 pieces of correspondence and almost 36,000 phone calls; reviewed more than 51,000 bills and 66,000 refunds; made adjustments, updates, or corrections to approximately 245,000 accounts; and received more than \$8 million in payments.
- **Audit/Compliance Cash Project.** Investigations and Audit are working jointly on a Cash Audit Project focusing on various segments of the cash economy. The

cash audit process is enhanced as a result of information provided by investigators throughout the audit.

- **Audit/Compliance Nexus Project.** Another area in which Compliance and Audit have developed a coordinated response is nexus. Investigators are discovering out-of-State vendors doing business in our State and referring them to the Audit Nexus Group to determine liability for New Jersey taxes. When necessary, the investigators serve warrants of jeopardy assessment to secure payment.
- **Closing Agreements Approved.** Thirty-nine (39) Closing Agreements initiated by the Branch were approved. Collections on Closing Agreement cases totaled \$781,327.

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## PROPERTY ADMINISTRATION

Property Administration consists of two branches, Local Property and Unclaimed Property. Local Property, whose activities concern real and certain personal property, is comprised of Policy and Planning; Local Assessment Compliance; and Field Assistance. Unclaimed Property, whose activities pertain to intangible personal property and safe deposit box contents, includes the Audit Section and the Operations Section.

### Unclaimed Property

Unclaimed Property consists of financial assets, such as: savings accounts, wage checks, life insurance policies, dividends, stocks and bonds. Property is "unclaimed" when it cannot be paid or delivered to the apparent owner, and there is no communication between the holder and the apparent owner for a specified abandonment period. This program is defined in N.J.S.A. 46-30B, et seq. The Unclaimed Property Web site can be searched at the following addresses:

Claim Information —

<http://www.state.nj.us/treasury/taxation/updiscl.htm>

Holder Information —

<http://www.state.nj.us/treasury/taxation/unclaim.htm>

**Audit.** Audit section conducts compliance audits of major corporate holders of unclaimed property. Corporate entities audited include insurance companies, banks, brokerage firms, mutual funds, retailers, utilities, etc. The State also contracts with two audit firms for out-of-State holders.

**Operations.** *Holder Reporting Unit* receives all reports of unclaimed property that meet the abandonment criteria. The report section works with holders to assure the accuracy of reports and their correct entry onto the electronic system. Magnetic tapes are received for all reports with 500 or more records. This unit assists holders to attain compliance with unclaimed property laws.

*Claims Processing Unit* receives all claims for the return of unclaimed property. Claims are researched and prior to payment, rightful ownership is validated. Approximately 20,000 claims are received each year and about \$15 million is annually returned to New Jersey taxpayers.

*Administration Unit* manages the four Unclaimed Property Trust funds and the Unclaimed Property Security Portfolio. All funds and securities are monitored and reconciled on a monthly basis. This unit also oversees Unclaimed Property contracts and special projects.



*Intestate Estates Unit* supervises and oversees the administration of intestate (no will, no apparent heir) estates through the court appointment of an administrator. If the search for heirs is unsuccessful, the administrator turns over proceeds to the State, minus estate expenses and statutory fees. This figure averages \$2.5 million per year.

## Local Property

**Policy and Planning.** Policy and Planning Section reviews and prepares comments on proposed legislation concerning property tax issues; reviews and approves reassessment and revaluation programs and contracts; develops procedures for uniform application of senior citizens' and veterans' deductions and certifies the amounts for State reimbursement to local taxing districts; oversees the administration of the Farmland Assessment Act of 1964; in cooperation with Local Property Field Staff and the Attorney General's Office, defends the Table of Equalized Valuations; coordinates biannual Tax Assessors' Certification Exams; monitors activities of county boards of taxation in all phases of tax administration; oversees the collection and remittance of the Realty Transfer Fees by county recording officials; audits the county appeals trust fund accounts for adequate controls and proper expenditures; prepares written guidelines and materials on various property tax programs and statutes for use by assessors and county tax board members; and responds to general taxpayer inquiries, correspondence and legislative referrals regarding property tax matters.

## Local Assessment Compliance

**Railroad Property Unit** classifies, assesses and taxes railroad properties and assesses and computes railroad franchise tax.

**Tax Maps Unit** reviews and approves municipal tax maps for conformance to current specifications and as required for municipal revaluations.

**Local Assessor Compliance Unit** was established in the fall of 1997. This unit reviews certain information that pertains to municipal tax assessors. The unit also conducts periodic inspections of tax assessors' offices for compliance with statutory responsibilities. The unit will also review tax assessor offices to determine if they have proper staff and equipment in order to carry out their duties.

## Field Assistance

**Field Assistance** provides direct assistance to 566 municipal tax assessors' offices and 21 county tax boards in solving routine administrative problems. Field Staff investigates SR-1A's for sales ratio purposes; gathers evidence for the defense of Table of Equalized Valuations appeals; collects material and labor cost data for develop-

ment of improved assessment standards; assists the Transfer Inheritance Tax Bureau with appraisals for inheritance tax purposes and maintains the Real Property Appraisal Manual provided for use by New Jersey Assessors.

**Sales Ratio** oversees the Assessment-Sales Ratio Program and develops the annual Table of Equalized Valuations from the data analyzed. The Table is used in the calculation and distribution of State School Aid, to apportion county and regional school district taxes and to measure debt limits of local government units. The Table of Equalized Valuations shows the average ratio of assessed to true value of real estate for each municipality in the State.

**Technical Support** provides assistance to all municipal taxing districts, county boards of taxation and data centers certified to use the New Jersey Property Tax System, Mod IV, to produce and maintain local assessment records, and coordinates with State programmers to effect software changes in response to legislative changes.

**Education/Training.** Property Administration personnel are members of the County Tax Board and Tax Assessor's Educational Committees and take a leadership role in training, education seminars and courses which provide procedural information on new and complicated legislation, existing laws and/or procedures to improve the performance of their duties.

## Highlights

- Unclaimed Property receives approximately \$50 million in assets yearly.
- The Unclaimed Property Securities Portfolio received \$14 million in fiscal year 1999.
- 70 applications for Tax Assessors' Exams were filed.
- 17 revaluation programs were implemented in 1999 at an average cost of \$45.63 per line item and a total cost of \$3,965,344. There were 14 reassessment programs implemented in 1999.
- \$143,130,061 in Realty Transfer Fees was generated with \$71,311,293 deposited into the General Fund and \$33,520,968 credited to the Neighborhood Preservation Nonlapsing Revolving Fund for fiscal year 1999.
- \$48,681,435 in State Revenue Sharing Distribution funds was reimbursed to New Jersey's 566 municipalities on November 1, 1999. The total amount of property tax deductions for senior and disabled citizens and surviving spouses was \$31,638,337. The total amount of veterans' deductions was \$17,043,098.

## TECHNICAL SUPPORT

Technical Support acts as a liaison between the Office of Information Technology (OIT), other State and Federal agencies, and the end users of data processing resources within Taxation, recommends and evaluates new technological concepts for the Division and aids in the automated and manual systems design required by new legislation. Support of these systems includes the use of programming like facilities such as FDF-PC, DCF, NOW, Natural and TSO. Technical Support has the general responsibility for the design and specification of all New Jersey tax forms, site inspection of prospective vendors and overall form quality assurance. In addition, the activity has responsibility for telecommunications, including the Wide Area Network (WAN) and the fiber optic equipment, supplies technical and desktop support, performs special project work, provides numerous management information reports, and maintains the TAXNET Help Desk.

The TAXNET Help Desk assists Division personnel to better utilize the Division's data systems, provides a vehicle for the identification and resolution of system problems and performs system table and file maintenance. During 1999 the TAXNET Help Desk answered 4,304 telephone calls and completed 1,611 problem notification forms and 1,795 employee changes. In addition, 777 Telecommunication Request/Problem Detail Reports involving troubleshooting, removing and installing of telephone devices or other telecommunication equipment were completed.

Technical Support reviews data processing requests for technical soundness and overall Division desirability. The Small Projects Prioritization Committee (SPPC) then sets priorities for these requests. During 1999, a total of 97 such requests were evaluated.

This activity continues to maintain various micro-based systems supporting a variety of applications throughout the Division. Included in this group are systems for the administration of Correspondence Tracking, Attorney Fee collection, and Fixed Asset Inventory.

During 1999 the Technical Support Activity assumed responsibility for the Division's training effort. Training is usually conducted in the REACH Center, the Division's in-house training facility. Two types of training are delivered; HRDI contracted classes and internally developed programs. In addition to HRDI contracted classes, Technical Support conducted 37 classes, delivering various training to approximately 400 employees. In addition, the REACH Center houses an internal lending library and software support for employees.

Technical Support also assumed responsibility for the Division's Web site, which was redesigned in February to provide a more user-friendly, easy to use vehicle for site visitors.

Technical Support participated in the change and design of many systems due to legislative and/or Division initiatives. These include:

- Continued expansion of the Internet filing program to include filing of NJ SAVER applications as well as accepting personal income tax extension requests (Form NJ-630) and allowing authorized EFT taxpayers to complete the Sales and Use Tax Quarterly Return (Form ST-50) online.
- Implementing the NJ SAVER Rebate Program including mailings, telephonic and Internet filing of the application, system development and generation of checks and notices.
- Developing a uniform format for all billing payment invoices, both business and individual, that are laser generated for standardization in processing.
- Implementation of NJ PC File, which allows taxpayers to download free software from the Division's Web site, complete their return and transmit the return for processing.
- Implementing legislation for the Property Tax Reimbursement Program which included mailing selection, matching data with MOD IV property tax files and homestead rebate file, form design and generating checks and notices.
- Continuing to assist with the consolidation of the registration and reporting functions across State agencies to simplify requirements for New Jersey businesses. Included in this effort was the Employer Quarterly Report (Form NJ-927) and the Corporation Business Tax Payment and Annual Report (Form CAR-100).
- Installing over 690 new desktop PCs throughout the Division and upgrading the hardware and software on an additional 350 existing PCs providing full functionality at the desktop, including the ability to run multiple concurrent applications such as mainframe access, image access, e-mail and Internet access.
- Developing a tracking system for checks, bills and notices for timely printing, sealing and mailing. This was done in conjunction with OMB and OIT.
- Implementing systematic changes required by legislation that revises the current calculations of certain State tax penalty provisions.

- Assisting in the implementation of payments by credit card for individual income tax payments. Using the services of US Audiotex, taxpayers are allowed to pay their income tax by credit card using a toll-free automated system.
- Assisting in a project where the Division sells judgments to a contracted vendor. This includes identifying batches of judgments based on specified criteria, creating a new TULIPS conversation for data entry purposes, creating a new TULIPS backlog to hold these cases and maintaining the integrity of these batches while the sale is pending.
- Implementing a Web site that listed the top 100 taxpayers with the largest judgments for both business taxes and individual income taxes. This project includes notifying the taxpayer prior to posting on the Web site, purifying both lists prior to posting on the Web site and refreshing the list monthly.
- Continuing to improve the *Package NJX* on CD-ROM. The disk, released annually in January, continues to be an important source for the practitioner community in helping taxpayers comply with State tax requirements.

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## CHIEF OF STAFF

The Office of the Chief of Staff is responsible for representing the Division of Taxation throughout State government as well as supplying Division wide support in the areas of Management Services, Disclosure, Fiscal matters, Personnel matters and Labor Relations.

### Management Services

The Management Services activity encompasses the responsibility of providing support in the following areas:

**Facilities Management.** Responsible for providing building maintenance and management services for 12 office buildings located throughout New Jersey, as well as coordinating maintenance and management services for the Division's out-of-State locations. Facilities Management also has the responsibility for managing and maintaining the Division's property, equipment inventory and distribution of supplies to the entire Division.

**Mail Services.** Provides pickup and delivery service of mail for the entire Division, including field offices. This office processes approximately 13 to 14 million pieces of mail annually.

**Records Management.** Responsible for the entire Division's records management and storage. Maintains a records placement and tracking system that enables Division personnel to retrieve documents and files quickly and efficiently.

### Disclosure

The Disclosure function entails many administrative duties, including responses to internal and external requests for tax records and the recommendation and implementation of exchange agreements with other agencies. Some of the agencies include the Internal Revenue Service, New Jersey State Police, Division of Criminal Justice, Division of Law, Division of State Lottery and many other states through their Departments of Revenue/Taxation. Through the mission of this function the Division of Taxation, with the cooperation of other taxing agencies throughout the United States, has been able to locate and identify tax evaders who cross state lines.

### Fiscal, Personnel and Labor Relations

The Office of the Chief of Staff works in conjunction with the Department of Treasury's Fiscal Office, Human Resources and Department of Personnel. The objectives are to coordinate, control and maintain all requests for personnel, equipment and budgetary needs and to maintain control over all personnel matters, including disciplinary and grievance actions concerning Division employees.

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## OFFICE OF CRIMINAL INVESTIGATION

The Office of Criminal Investigation is responsible for the detection and investigation of alleged criminal violations in the State tax code. In addition, the responsibility of internal security and internal control assessments falls within the jurisdiction of this area.

The activities within the Office of Criminal Investigation are:

**Office of Criminal Investigation.** Cases that indicate willful intent to evade the tax laws are developed. Based on the findings of the investigation, recommendations for criminal prosecution are made to the Attorney General's Office or to the county prosecutor. The cases are generated from projects within this activity, referrals from other functions within the Division, participation in joint investigations with prosecutors' offices and other law enforcement agencies, and concerned citizens.

OCI works closely with prosecutors and investigators at all governmental levels. Liaison activities are encouraged, and joint investigations are conducted in cases dealing with economic and financial crimes that have tax compliance consequences. Currently, OCI is also actively involved in cooperative efforts with the Internal Revenue Service, the Federal Bureau of Investigation and states within the northeast corridor.

**Cigarette Tax.** Special agents assigned to OCI have the statutory authority to investigate violations of New Jersey's cigarette tax laws. Investigative resources have been directed towards the sale of unstamped cigarettes, smuggling, counterfeiting and the location of contraband.

**Internal Security Unit.** Handles sensitive matters, including integrity investigations (attempts by outsiders to corrupt Division employees and also allegations that employees have committed ethical or criminal violations), background investigations of prospective employees, and assaults and threats by persons who impede the functions of the Division. The unit also provides training to enable new employees to recognize possible compromising situations. Examples of cases worked during the fiscal year include attempted bribery of an employee, various physical threats to employees, and other integrity matters.

### Highlights

- 81 cases were forwarded to prosecutors, 456 complaints were evaluated resulting in the initiation of 34 criminal cases. Total of 131 ongoing criminal investigations.

- 197 criminal investigations of cigarette tax violations were initiated; 74 of these cases involved the seizure of contraband cigarettes and the seizure of 1 vehicle. Seized 15,605 cartons of contraband cigarettes valued at \$507,252.
- 711 background investigations and 44 integrity investigations were conducted.